

# **Report of the auditor-general to the Free State Provincial Legislature and the council on the Xhariep District Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Xhariep District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence that other payables and trade payables had been properly reconciled and accounted for. The district municipality did not maintain adequate records of outstanding invoices for goods and services received but not yet paid at year-end. I was unable to confirm other creditors and trade payables by alternative means. Consequently, I was unable to determine whether any adjustment to other creditors of R4 813 307 and trade payables of R1 202 012, as disclosed in note 11 to the financial statements, was necessary.

### Qualified opinion

7. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Xhariep District Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

9. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2014 were restated as a result of errors discovered during 2014-15 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

### Irregular expenditure

10. As disclosed in note 38 to the financial statements, the municipality incurred irregular expenditure of R3 710 358 (2014: R8 364 073) during the year under review mainly due to non-compliance with supply chain management (SCM) requirements.

### Going concern

11. Note 34 to the financial statements indicates that the district municipality incurred a net loss of R5 219 088 during the year ended 30 June 2015 and, as of that date, the municipality's current liabilities exceeded its current assets by R6 613 002. These conditions, along with other matters as set forth in note 34, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## **Additional matter**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2015:
  - Key performance area: Basic service delivery on pages x to x
  - Key performance area: Municipal transformation and institutional development on pages x to x
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned key performance areas. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following key performance areas:
  - Basic service delivery
  - Municipal transformation and institutional development



## **Additional matters**

20. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected key performance areas, I draw attention to the following matter:

### **Achievement of planned targets**

21. Refer to the annual performance report on page(s) x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the conclusions expressed on usefulness and reliability of the reported performance information in paragraph(s) xx of this report.

### **Unaudited supplementary information**

22. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

## **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Financial statements and annual reports**

24. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

## **Expenditure management**

25. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
26. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Revenue management**

27. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.
28. Sufficient audit evidence could not be obtained that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

## **Human resource management and compensation**

29. The municipality did not develop and adopt appropriate systems and procedures to monitor, measure and evaluate performance of staff, in contravention of section 67(d) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

## **Asset management**

30. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

## **Liability management**

31. An effective system of internal control for liabilities including a liability register was not in place, as required by section 63(2)(c) MFMA.

## **Procurement and contract management**

32. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by SCM regulation 17(a) and (c).
33. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
34. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
35. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
36. Contracts were extended without the approval of a properly delegated official, as required by SCM regulation 5.

## **Consequence management**

37. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

## **Conditional grants and transfers**

38. The municipality did not evaluate its performance in respect of programmes or functions funded by the local government financial management grant allocation, as required by section 12(5) of DoRA.

## **Audit committee**

39. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by municipal planning and performance management regulation 14(4)(a)(i).

## **Internal audit unit**

40. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

## **Internal control**

41. I considered internal control relevant to my audit of the financial statements and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the findings on compliance with legislation included in this report.

## **Leadership**

42. There has been a slow response from leadership in implementing and monitoring the audit action plan to address qualification areas and internal control deficiencies identified during the previous audits. Investigations into possible fraudulent transactions identified in the previous year were still not concluded. None of the unauthorised, irregular as well as fruitless and wasteful expenditure was investigated, and due to the lack of investigations no one was held accountable.

## **Financial and performance management**

43. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in material adjustments being made to the financial statements. It was also identified through the audit that some officials were not sufficiently skilled to ensure that the daily financial transactions were fully and correctly recorded. Internal reviews and reconciliations of all financial records and transactions were found to be inadequate.
44. The municipality did not always comply with applicable legislation. No formal processes were in place to monitor compliance with legislation, which resulted in the number of reported non-compliance issues. Consequences for poor performance and non-compliance with legislation lacking.

## **Governance**

45. Management did not implement the recommendations of the internal audit unit, and the third and fourth quarter internal audit reports were not tabled to the audit committee. The chief audit executive was suspended just before the external audit commenced, and the audit committee was not informed of this. This negatively affected the audit committee on carrying out its oversight function.

## Other reports

### Investigations

46. The Xhariep District Municipality was in the process of conducting an internal review for the fraudulent transactions involving possible management's collusion with the procurement of services that were contrary to SCM regulations. The accounting officer indicated that there would be a further investigation, and any criminal liability would be pursued and monies recovered. At the time of this report, the composition, terms and reference of the investigation were not finalised.

*Auditor General*

Bloemfontein

30 November 2015



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

